Making Your Gifts Count: 10 Smart Tips For Charitable Giving

NOV 1, 2013 @ 11:00 AM **18,624** VIEWS

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I cover tax: paying tax is painful but reading about it shouldn't be.

A woman makes a donation into a Salvation Army kettle outside a Giant grocery store November 24, 2012, in Clifton, Virginia. (Image credit: AFP/Getty Images via @daylife)

Americans gave $316.23 billion to charity in 2012, equivalent to 2% of the U.S. gross domestic product (GDP). The majority of that giving, $223 billion, came from individuals – not surprising since 88% of households give to charity.

Making a charitable donation is not only a chance to make a difference: it's also an excellent way to reduce your tax burden for the year. The tax benefit is considered a compelling reason for making charitable deductions: more than two-thirds of high-net-worth donors said they would decrease their giving if they did not receive a corresponding tax deduction.

A tax deduction for charitable giving isn't guaranteed just because you're feeling generous. As with everything in tax law, it's important to follow the rules. With that in mind, here are 10 tips for making your donation count:

1. **Itemize.** In order to claim a charitable deduction on your tax return, you

must itemize your deductions. You report itemized deductions on Schedule A on your federal form 1040 using lines 16-19:

Gifts to Charity	16	Gifts by cash or check. If you made any gift of $250 or more, see instructions	16	
If you made a gift and got a benefit for it, see instructions.	17	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500 . . .	17	
	18	Carryover from prior year	18	
	19	Add lines 16 through 18	19	

2. **Choose carefully.** Only donations to qualified charitable organizations are deductible. If you're not sure whether an organization is qualified, ask to see their letter from the IRS (many organizations will actually post their letters on their web site). If that isn't possible, you can search online using IRS Exempt Organizations Select Check. Keep in mind that churches, synagogues, temples and mosques are considered *de facto* charitable organizations and are eligible to receive deductible donations even if they're not on the list (some exceptions apply so be sure and ask if you're not sure). You can also find out more about a charitable organization's tax exempt status – as well as review financials, mission statements and more – by check out a third party evaluator site like Charity Navigator.

3. **Get a receipt – even for cash.** Cash deductions, regardless of the amount, must be substantiated by a bank record (such as a canceled check or credit card receipt, clearly annotated with the name of the charity) or in writing from the organization. The writing must include the date, the amount and the organization that received the donation. You don't have to submit the writing along with your return but you need to be prepared to show it at audit. This is a relatively new requirement: the rules changed in 2007 to require written evidence for all monetary donations, including cash.

4. **Don't overlook payroll deductions.** Increasingly, employees rely on charitable giving opportunities available through their employer. If you make a contribution by payroll deduction, record keeping requirements under the Pension Protection Act of 2006 require you to retain a pay stub, form W-2 or other document furnished by your employer that shows the total amount withheld as a charitable donation along with the pledge card that shows the name of the charity. For federal workers, a pledge card with the name of a Combined Federal Campaign will meet these requirements.

5. **Pay attention to the value of any incentives.** A charitable donation is deductible only to the extent that the donation exceeds the value of any goods or services received in exchange. If you make a donation and receive something in exchange – anything from a coffee mug to a dinner – you can deduct the cost of your donation less the value of the item received. If you're not sure of the value of an item or service received after a donation, just ask. Most charitable organizations will do the math for you and document the value of your donation on their thank you letter or receipt.

6. **Consider donating appreciated assets.** Donating property that has appreciated in value, like stocks, can result in a double benefit. Not only

can you deduct the fair market value of the property (so long as you've owned it for at least one year), you avoid paying capital gains tax. Normally, appreciated property is subject to capital gains tax at disposition. There is an exception for donations to charitable organizations: you escape paying capital gains tax altogether.

7. **You can't deduct the value of your time.** The IRS does not allow a charitable deduction for volunteering your services. The good news is that out of pocket expenses relating to volunteering so long as they are unreimbursed; directly connected with the services; expenses you had only because of the services you gave; and not personal, living, or family expenses. Out of pocket charitable expense which might be deductible include the cost of transportation (including parking fees and tolls); travel expenses while you are away from home performing services for a charitable organization; unreimbursed uniforms or other related clothing worn as part of your charitable service; and supplies used in the performance of your services. As with other donations, keep good records since documentation is key.
8. **Document the value of your gift.** Good records are always important when it comes to charitable giving but even moreso for donations of non-cash items. You must be able to substantiate the value of your donation. You can generally take a deduction for the fair market value of the items, or what the item would sell for in its current condition, but you'll want to be able to establish an appropriate value. If self-documenting the donation because it's less than $500, be specific, noting the description and condition of the items. If you contribute property worth more than $5,000, you must obtain a written appraisal of the property's fair market value.
9. **Limits may apply.** Many taxpayers aren't even aware that there are limits on charitable contributions but they do exist. If you contribute more than 20% of your adjusted gross income (AGI, found on line 37 of your form 1040), pay attention to limits. The specific limitations can be fairly complicated – with numerous exceptions – but here are some quick rules of thumb: you can deduct appreciated capital gains assets up to 20% of AGI; you can deduct non-cash assets worth up to 30% of AGI; and you can deduct cash contributions up to 50% of AGI. If you exceed those limits, you can carry the deduction forward for five years.
10. **Pay attention to the calendar.** Contributions are deductible in the year made. To make it count during the tax year, gifts must be made by December 31. That doesn't necessarily mean cash out of your account. Credit card charges – even if they're not paid off before the end of the year – are deductible so long as the charge is captured by year end. Similarly, checks which are written and mailed by the end of the year will be deductible for this year even if they aren't cashed until 2014.

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